

# **Farm Credit of Western Oklahoma, ACA**



**Quarterly Report  
September 30, 2022**

The shareholders' investment in Farm Credit of Western Oklahoma, ACA is materially affected by the financial condition and results of operations of CoBank, ACB, (CoBank). The 2021 CoBank Annual Report to Shareholders and the CoBank quarterly shareholders' reports are available free of charge by accessing CoBank's web site, **[www.cobank.com](http://www.cobank.com)**, or may be obtained at no charge by contacting us at Farm Credit of Western Oklahoma, ACA, 3302 Williams Avenue, Woodward, Oklahoma 73801, or by calling 580-256-3465 or toll free 1-800-299-3465.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
(Unaudited)

The following discussion summarizes the financial position and results of operations of Farm Credit of Western Oklahoma, ACA (the Association) for the nine months ended September 30, 2022, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2021 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

Loan demand has been moderate and commodity prices have strengthened substantially during 2022. Most of our lending territory is experiencing significant levels of drought with impacts to both fall yields as well as planting conditions. USDA rates most soil moisture conditions across the state of Oklahoma as short to very short, emphasizing the need for moisture throughout Oklahoma. According to USDA, growing crop conditions across the state of Oklahoma are predominantly poor at the present time.

With the strengthening of commodity prices, opportunities for our customers to forward price grain/cattle at strong levels of profitability has been present, but notable increases in input prices and continued disruptions in various supply chains continue to impact agricultural operations. This stress and uncertainty, amplified by rising inflation, is leading to profit margin compression with notable increases to the cost of production, offset in part by low unemployment, strong demand for off-farm labor, and income diversification opportunities.

While the U.S. economy remains healthy, severe supply chain disruptions, labor shortages, fuel prices, inflation, weather related events and recession pressures remain a concern. The rural economy is benefitting from the strong U.S. economy, driving higher levels of spending and investment by businesses and consumers. Most agricultural commodity prices have increased sharply thus far in 2022 and remained highly volatile. The Russia/Ukraine conflict has also impacted certain agricultural commodity prices and created additional volatility and uncertainty in the markets. From a monetary policy perspective, the Fed has increased rates multiple times in 2022, with the first interest rate increase of 25 basis points in March 2022, 50 basis points in May 2022, 75 basis points in June 2022, 75 basis points in July 2022 and 75 basis points in September 2022. Anticipation of tighter monetary policy is contributing to a stronger dollar and changes in the shape of the yield curve.

The uncertainty of continued strength in the value of agricultural real estate is an economic concern to the agricultural industry; however, average real estate values in Oklahoma continue to show signs of improvement. USDA National Agricultural Statistics indicate that Oklahoma farm real estate values increased by 6.88% in 2021. However, the continuation of Oklahoma real estate appreciation remains in question given the other factors previously mentioned. Future land value studies will indicate to what level the current stress in the agricultural economy is influencing land values across the region. Although concern over the rural economic environment persists, significant equities remain across our customer base and opportunities for strong profitability exist. Solid financial managers continue to have the upper hand and strong financial management is expected from our customer base as they work to increase profitability and strengthen liquidity.

On October 28, 2021, the boards of directors of Farm Credit of Western Oklahoma, ACA and Farm Credit of Enid, ACA approved a letter of intent to pursue a merger. CoBank granted approval of the merger and a conditional approval from the Farm Credit Administration was also granted. In addition, the stockholders of both Associations voted in support of the merger. The merger become effective on November 1, 2022.

#### **LOAN PORTFOLIO**

Loans outstanding at September 30, 2022, totaled \$1.30 billion, a decrease of \$1.1 million, or 0.08%, from loans of \$1.30 billion at December 31, 2021. The decrease was primarily due to a reduction in production and intermediate term loans which were impacted by seasonal repayments of operating lines of credit and reduced loan demand.

#### **RESULTS OF OPERATIONS**

Net income for the nine months ended September 30, 2022, was \$16.1 million, a decrease of \$592 thousand, or 3.54%, from the same period ended one year ago. The decrease was primarily due to a decrease in credit loss reversal, offset by an increase in equity positioning income from CoBank.

For the nine months ended September 30, 2022, net interest income was \$26.2 million, an increase of \$168 thousand, or 0.65%, compared with the nine months ended September 30, 2021. Net interest income increased as a result of increased loan volume, offset in part by a reduction in interest rate spread.

The credit loss reversal for the nine months ended September 30, 2022, was \$163 thousand, a decrease of \$2.6 million, or 94.05%, from the credit loss reversal for the same period ended one year ago. The credit loss reversal decreased due to a large recovery received in April of 2021 on a previously charged off loan.

Noninterest income increased \$3.5 million during the first nine months of 2022 compared with the first nine months of 2021 primarily due to equity positioning income from CoBank which was the result of implementing a pro-rata equity strategy for our excess loanable funds. Patronage distribution from Farm Credit institutions increased in the first nine months ended September 30, 2022, compared with the first nine months in 2021 primarily due to an increase in CoBank patronage related to our direct note payable to CoBank.

Mineral income of \$819 thousand was recognized during the first nine months of 2022. Of this amount, \$770 thousand was received from CoBank. The increase for the nine months ended September 30, 2022, compared with the first nine months of 2021 is reflective of the higher oil and gas commodity prices paid on production during the period and lease bonus payments received on minerals owned by the association.

During the first nine months of 2022, noninterest expense increased \$1.7 million to \$17.9 million, primarily due to merger related costs, salaries and employee benefits, increased cost from our service provider, AgVantis, and increased advertising and public member relations expense.

We recorded conversion fee expense of \$126 thousand during the first nine months of 2021, primarily due to prepayment fees charged by CoBank related to loan conversions associated with the decrease in rates. Farm Credit System Insurance Corporation (FCSIC) premiums increased \$349 thousand for the nine months ended September 30, 2022 compared with the same period in 2021 due to an increase in the insurance premium accrual assessment rate on Systemwide adjusted insured debt from 16 basis points to 20 basis points, which was retroactively applied for 2022 during the second quarter. This increase was also impacted by an increase in year-to-date average loan volume.

## **CAPITAL RESOURCES**

Our shareholders' equity at September 30, 2022, was \$257.5 million, an increase from \$241.3 million at December 31, 2021. This increase is due to net income and the amortization of pension costs included in the net periodic benefit cost and further increased by net stock additions.

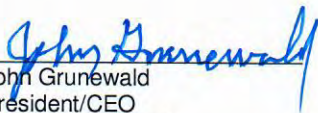
## **OTHER MATTERS**


On December 8, 2021, the FCA issued an informational memorandum to provide additional guidance to Farm Credit System institutions on their transition away from LIBOR. The guidance encourages Farm Credit System institutions to stop entering into new contracts that reference LIBOR as soon as practicable and in any event no later than December 31, 2021. Entering into new LIBOR-referenced contracts after that date would present safety and soundness risk. The guidance also provides clarity on what the FCA considers a new LIBOR-indexed contract; whether purchases of legacy LIBOR-indexed loans and investments are deemed new contracts; limited exceptions for entering into new LIBOR contracts that reduce or hedge risk in legacy LIBOR contracts; and the due diligence and other procedures required before using other benchmark/reference rate alternatives to LIBOR (beyond SOFR), including credit-sensitive alternative rates.

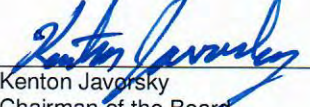
On March 15, 2022, the U.S. government passed the Consolidated Appropriations Act of 2022, which includes federal legislation regarding the LIBOR transition. The legislation provides a statutory fallback mechanism to replace LIBOR with a benchmark rate, selected by the Federal Reserve Board and based on SOFR, for certain contracts that reference LIBOR and contain no or insufficient fallback provisions. The law also provides a safe harbor for parties who select the statutory benchmark replacement rate.

While our Association currently holds legacy LIBOR indexed loans in our portfolio, we have adopted a transition plan to reduce LIBOR exposures and stop the inflow of new LIBOR volume. We have analyzed potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks. Since we engage in transactions involving financial instruments that reference LIBOR, these developments did not have a material impact on the Association and our borrowers. Management has documented and worked through the LIBOR transition plan with our funding bank and service provider to address the phase out of LIBOR rates, including any updates to processes and loan servicing technology.

The undersigned certify they have reviewed this report, this report has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief.

  
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John Grunewald  
President/CEO  
November 4, 2022

  
\_\_\_\_\_  
Janey B. Mitchell  
CFO  
November 4, 2022

  
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Kenton Javorsky  
Chairman of the Board  
November 4, 2022

**Consolidated Statement of Condition**

(Dollars in Thousands)

|   | September 30<br>2022 | December 31<br>2021 |
|---|----------------------|---------------------|
|   | UNAUDITED            | AUDITED             |
| <b>ASSETS</b>                                     |                      |                     |
| Loans   | \$ 1,295,473         | \$ 1,296,546        |
| Less allowance for loan losses                    | 1,576                | 1,822               |
| Net loans   | 1,293,897            | 1,294,724           |
| Cash  | 2,321                | 8,824               |
| Accrued interest receivable                       | 22,425               | 17,865              |
| Investment in CoBank, ACB                         | 36,919               | 39,139              |
| Premises and equipment, net                       | 7,334                | 6,844               |
| Prepaid benefit expense                           | 8,734                | 7,086               |
| Other assets                                      | 6,359                | 8,270               |
| <b>Total assets</b>                               | <b>\$ 1,377,989</b>  | <b>\$ 1,382,752</b> |
| <b>LIABILITIES</b>                                |                      |                     |
| Note payable to CoBank, ACB                       | \$ 1,088,441         | \$ 1,107,801        |
| Advance conditional payments                      | 23,027               | 14,164              |
| Accrued interest payable                          | 1,974                | 1,478               |
| Patronage distributions payable                   | -                    | 5,700               |
| Accrued benefits liability                        | 703                  | 650                 |
| Reserve for unfunded commitments                  | 683                  | 545                 |
| Other liabilities                                 | 5,655                | 11,069              |
| <b>Total liabilities</b>                          | <b>1,120,483</b>     | <b>1,141,407</b>    |
| <b>Commitments and Contingencies</b>              |                      |                     |
| <b>SHAREHOLDERS' EQUITY</b>                       |                      |                     |
| Capital stock                                     | 2,439                | 2,433               |
| Additional paid-in capital                        | 81,946               | 81,946              |
| Unallocated retained earnings                     | 173,277              | 157,147             |
| Accumulated other comprehensive income/(loss)     | (156)                | (181)               |
| <b>Total shareholders' equity</b>                 | <b>257,506</b>       | <b>241,345</b>      |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 1,377,989</b>  | <b>\$ 1,382,752</b> |

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statement of Comprehensive Income**

(Dollars in Thousands)

| UNAUDITED   | For the three months<br>ended September 30 |                 | For the nine months<br>ended September 30 |                  |
|---|--|-----------------|---|------------------|
|   | 2022                                       | 2021            | 2022                                      | 2021             |
| <b>INTEREST INCOME</b>  |  |                 |   |                  |
| Loans   | \$ 14,075                                  | \$ 12,605       | \$ 39,643                                 | \$ 37,498        |
| <b>Total interest income</b>  | <b>14,075</b>                              | <b>12,605</b>   | <b>39,643</b>                             | <b>37,498</b>    |
| <b>INTEREST EXPENSE</b>   |  |                 |   |                  |
| Note payable to CoBank, ACB   | 5,391                                      | 3,949           | 13,398                                    | 11,453           |
| Other   | 38   | 10              | 63  | 31               |
| <b>Total interest expense</b>   | <b>5,429</b>                               | <b>3,959</b>    | <b>13,461</b>                             | <b>11,484</b>    |
| Net interest income   | 8,646                                      | 8,646           | 26,182                                    | 26,014           |
| (Credit loss reversal)/Provision for credit losses                            | (58)                                       | 83              | (163)                                     | (2,738)          |
| Net interest income after credit loss reversal/Provision<br>for credit losses | 8,704                                      | 8,563           | 26,345                                    | 28,752           |
| <b>NONINTEREST INCOME</b>   |  |                 |   |                  |
| Financially related services income   | 1  | 2               | 4   | 5                |
| Loan fees   | 57   | 31              | 146                                       | 58               |
| Patronage distribution from Farm Credit institutions                          | 1,204                                      | 1,168           | 3,745                                     | 3,438            |
| Mineral income  | 363  | 217             | 819                                       | 484              |
| Equity positioning income from CoBank   | -  | -               | 2,844                                     | -                |
| Other noninterest income  | 17   | 74              | 151                                       | 225              |
| <b>Total noninterest income</b>   | <b>1,642</b>                               | <b>1,492</b>    | <b>7,709</b>                              | <b>4,210</b>     |
| <b>NONINTEREST EXPENSE</b>  |  |                 |   |                  |
| Salaries and employee benefits  | 2,917                                      | 2,776           | 8,499                                     | 8,194            |
| Occupancy and equipment   | 255  | 222             | 691                                       | 665              |
| Purchased services from AgVantis, Inc.  | 863  | 777             | 2,590                                     | 2,331            |
| Farm Credit Insurance Fund premium  | 466  | 360             | 1,413                                     | 1,064            |
| Merger related costs  | 201  | -               | 537                                       | 167              |
| Supervisory and examination costs   | 100  | 89              | 299                                       | 308              |
| Prepayment expense  | -  | (1)             | -   | 126              |
| Other noninterest expense   | 1,158                                      | 1,035           | 3,895                                     | 3,385            |
| <b>Total noninterest expense</b>  | <b>5,960</b>                               | <b>5,258</b>    | <b>17,924</b>                             | <b>16,240</b>    |
| <b>Net income</b>   | <b>4,386</b>                               | <b>4,797</b>    | <b>16,130</b>                             | <b>16,722</b>    |
| <b>COMPREHENSIVE INCOME</b>   |  |                 |   |                  |
| Amortization of retirement costs  | 9  | 17              | 25  | 50               |
| <b>Total comprehensive income</b>   | <b>\$ 4,395</b>                            | <b>\$ 4,814</b> | <b>\$ 16,155</b>                          | <b>\$ 16,772</b> |

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statement of Changes in Shareholders' Equity**

(Dollars in Thousands)

| UNAUDITED                               | Protected<br>Borrower<br>Stock | Capital<br>Stock | Additional<br>Paid-In<br>Capital | Unallocated<br>Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income/(Loss) | Total<br>Shareholders'<br>Equity |
|---|--------------------------------|------------------|----------------------------------|-------------------------------------|--|----------------------------------|
| <b>Balance at December 31, 2020</b>     | \$ -                           | \$ 2,058         | \$ 33,619                        | \$ 141,994                          | \$ (317)   | \$ 177,354                       |
| Comprehensive income                    |                                |                  |                                  | 16,722                              | 50   | 16,772                           |
| Stock issued                            |                                | 234              |                                  |                                     |  | 234                              |
| Stock retired                           | (10)                           | (202)            |                                  |                                     |  | (212)                            |
| Equity issued in connection with merger | 10                             | 343              | 48,327                           |                                     |  | 48,680                           |
| <b>Balance at September 30, 2021</b>    | \$ -                           | \$ 2,433         | \$ 81,946                        | \$ 158,716                          | \$ (267)   | \$ 242,828                       |
| <b>Balance at December 31, 2021</b>     | \$ -                           | \$ 2,433         | \$ 81,946                        | \$ 157,147                          | \$ (181)   | \$ 241,345                       |
| Comprehensive income                    |                                |                  |                                  | 16,130                              | 25   | 16,155                           |
| Stock issued                            |                                | 154              |                                  |                                     |  | 154                              |
| Stock retired                           | -                              | (148)            |                                  |                                     |  | (148)                            |
| <b>Balance at September 30, 2022</b>    | \$ -                           | \$ 2,439         | \$ 81,946                        | \$ 173,277                          | \$ (156)   | \$ 257,506                       |

The accompanying notes are an integral part of these consolidated financial statements.

## **NOTES TO FINANCIAL STATEMENTS** (Unaudited)

### **NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

A description of the organization and operations of Farm Credit of Western Oklahoma, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2021, are contained in the 2021 Annual Report to Shareholders. These unaudited third quarter 2022 financial statements should be read in conjunction with the 2021 Annual Report to Shareholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021, as contained in the 2021 Annual Report to Shareholders.

In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for a fair statement of results for the interim periods, have been made. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2022. Descriptions of the significant accounting policies are included in the 2021 Annual Report to Shareholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

#### **Recently Adopted or Issued Accounting Pronouncements**

In March 2022, the Financial Accounting Standards Board (FASB) issued an update entitled “Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosures.” The guidance eliminates the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. The creditor will have to apply the guidance to determine whether a modification results in a new loan or a continuation of an existing loan. In addition to the TDR guidance, the update requires public business entities to disclose current period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of the credit losses standard. These amendments will be effective for the Association at the time of adoption of the measurement of credit losses on financial instruments standard on January 1, 2023.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a single allowance framework for financial assets carried at amortized cost, which reflects management’s estimate of expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to held-to-maturity securities, and depending on the situation, available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers, including this Association, this guidance becomes effective for interim and annual reporting periods beginning after December 15, 2022. We continue to test and refine our current expected loss models.

The Association intends to estimate losses over a 12-month forecast period using a range of macroeconomic variables and then revert to the Association’s historical loss experience over an extended period of time. The Association continues to evaluate the impact of adoption on its financial condition and results of operations.

## NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

| <i>(dollars in thousands)</i>    | September 30, 2022  | December 31, 2021   |
|----------------------------------|---------------------|---------------------|
| Real estate mortgage             | \$ 903,562          | \$ 887,949          |
| Production and intermediate-term | 313,885             | 332,191             |
| Agribusiness                     | 55,025              | 60,643              |
| Rural infrastructure             | 19,497              | 11,963              |
| Rural residential real estate    | 1,508               | 1,800               |
| Agricultural export finance      | 1,996               | 2,000               |
| <b>Total loans</b>               | <b>\$ 1,295,473</b> | <b>\$ 1,296,546</b> |

The Association purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2022:

| <i>(dollars in thousands)</i>    | Other Farm Credit Institutions |                  | Non-Farm Credit Institutions |             | Total             |                  |
|----------------------------------|--------------------------------|------------------|------------------------------|-------------|-------------------|------------------|
|                                  | Purchased                      | Sold             | Purchased                    | Sold        | Purchased         | Sold             |
| Real estate mortgage             | \$ 49,051                      | \$ 7,495         | \$ 90,073                    | \$ -        | \$ 139,124        | \$ 7,495         |
| Production and intermediate-term | 35,076                         | 7,016            | -                            | -           | 35,076            | 7,016            |
| Agribusiness                     | 25,609                         | 4,004            | -                            | -           | 25,609            | 4,004            |
| Rural infrastructure             | 19,497                         | -                | -                            | -           | 19,497            | -                |
| Agricultural export finance      | 1,996                          | -                | -                            | -           | 1,996             | -                |
| <b>Total</b>                     | <b>\$ 131,229</b>              | <b>\$ 18,515</b> | <b>\$ 90,073</b>             | <b>\$ -</b> | <b>\$ 221,302</b> | <b>\$ 18,515</b> |

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality.
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness.
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan.
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable.
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

|                                  | September 30, 2022 | December 31, 2021 |
|----------------------------------|--------------------|-------------------|
| Real estate mortgage             |                    |                   |
| Acceptable                       | 96.29%             | 95.92%            |
| OAEM                             | 2.28%              | 2.69%             |
| Substandard                      | 1.43%              | 1.39%             |
| Total                            | 100.00%            | 100.00%           |
| Production and intermediate-term |                    |                   |
| Acceptable                       | 96.04%             | 94.36%            |
| OAEM                             | 2.98%              | 4.57%             |
| Substandard                      | 0.98%              | 1.07%             |
| Total                            | 100.00%            | 100.00%           |
| Agribusiness                     |                    |                   |
| Acceptable                       | 99.99%             | 99.93%            |
| OAEM                             | 0.01%              | 0.07%             |
| Total                            | 100.00%            | 100.00%           |
| Rural infrastructure             |                    |                   |
| Acceptable                       | 100.00%            | 100.00%           |
| Total                            | 100.00%            | 100.00%           |
| Rural residential real estate    |                    |                   |
| Acceptable                       | 100.00%            | 100.00%           |
| Total                            | 100.00%            | 100.00%           |
| Agricultural export finance      |                    |                   |
| Acceptable                       | 100.00%            | 100.00%           |
| Total                            | 100.00%            | 100.00%           |
| Total Loans                      |                    |                   |
| Acceptable                       | 96.45%             | 95.75%            |
| OAEM                             | 2.31%              | 3.02%             |
| Substandard                      | 1.24%              | 1.23%             |
| Total                            | 100.00%            | 100.00%           |

High risk assets consist of impaired loans and other property owned. These nonperforming assets (including related accrued interest) are as follows:

| <i>(dollars in thousands)</i>         | September 30, 2022 | December 31, 2021 |
|---------------------------------------|--------------------|-------------------|
| Nonaccrual loans                      |                    |                   |
| Real estate mortgage                  | \$ 9,969           | \$ 4,703          |
| Production and intermediate-term      | 132                | 198               |
| Total nonaccrual loans                | \$ 10,101          | \$ 4,901          |
| Accruing restructured loans           |                    |                   |
| Real estate mortgage                  | \$ -               | \$ 157            |
| Total accruing restructured loans     | \$ -               | \$ 157            |
| Accruing loans 90 days past due       |                    |                   |
| Real estate mortgage                  | \$ 110             | \$ -              |
| Total accruing loans 90 days past due | \$ 110             | \$ -              |
| Total impaired loans                  | \$ 10,211          | \$ 5,058          |

The Association had no other property owned for the periods presented.

Additional impaired loan information is as follows:

|   | September 30, 2022  |                          |                   | December 31, 2021   |                          |                   |
|---|---------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|
|   | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| <i>(dollars in thousands)</i>                             |                     |                          |                   |                     |                          |                   |
| Impaired loans with a related allowance for loan losses:  |                     |                          |                   |                     |                          |                   |
| Production and intermediate-term                          | \$ 21               | \$ 22                    | \$ 10             | \$ -                | \$ -                     | \$ -              |
| <b>Total</b>  | <b>\$ 21</b>        | <b>\$ 22</b>             | <b>\$ 10</b>      | <b>\$ -</b>         | <b>\$ -</b>              | <b>\$ -</b>       |
| Impaired loans with no related allowance for loan losses: |                     |                          |                   |                     |                          |                   |
| Real estate mortgage                                      | \$ 10,079           | \$ 10,076                |                   | \$ 4,860            | \$ 4,935                 |                   |
| Production and intermediate-term                          | 111                 | 1,559                    |                   | 198                 | 1,861                    |                   |
| <b>Total</b>  | <b>\$ 10,190</b>    | <b>\$ 11,635</b>         |                   | <b>\$ 5,058</b>     | <b>\$ 6,796</b>          |                   |
| Total impaired loans:                                     |                     |                          |                   |                     |                          |                   |
| Real estate mortgage                                      | \$ 10,079           | \$ 10,076                | \$ -              | \$ 4,860            | \$ 4,935                 | \$ -              |
| Production and intermediate-term                          | 132                 | 1,581                    | 10                | 198                 | 1,861                    | -                 |
| <b>Total</b>  | <b>\$ 10,211</b>    | <b>\$ 11,657</b>         | <b>\$ 10</b>      | <b>\$ 5,058</b>     | <b>\$ 6,796</b>          | <b>\$ -</b>       |

Note: The recorded investment in the loan receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the loan receivable.

|   | For the Three Months Ended<br>September 30, 2022 |                            | For the Three Months Ended<br>September 30, 2021 |                            |
|---|--|----------------------------|--|----------------------------|
|   | Average Impaired Loans                           | Interest Income Recognized | Average Impaired Loans                           | Interest Income Recognized |
| <i>(dollars in thousands)</i>                             |  |                            |  |                            |
| Impaired loans with a related allowance for loan losses:  |  |                            |  |                            |
| Production and intermediate-term                          | \$ 21  | \$ -                       | \$ 369   | \$ -                       |
| <b>Total</b>  | <b>\$ 21</b>                                     | <b>\$ -</b>                | <b>\$ 369</b>                                    | <b>\$ -</b>                |
| Impaired loans with no related allowance for loan losses: |  |                            |  |                            |
| Real estate mortgage                                      | \$ 9,700   | \$ 26                      | \$ 5,708   | \$ 3                       |
| Production and intermediate-term                          | 763  | 27                         | 288  | -                          |
| <b>Total</b>  | <b>\$ 10,463</b>                                 | <b>\$ 53</b>               | <b>\$ 5,996</b>                                  | <b>\$ 3</b>                |
| Total impaired loans:                                     |  |                            |  |                            |
| Real estate mortgage                                      | \$ 9,700   | \$ 26                      | \$ 5,708   | \$ 3                       |
| Production and intermediate-term                          | 784  | 27                         | 657  | -                          |
| <b>Total</b>  | <b>\$ 10,484</b>                                 | <b>\$ 53</b>               | <b>\$ 6,365</b>                                  | <b>\$ 3</b>                |

|   | For the Nine Months Ended<br>September 30, 2022 |                               | For the Nine Months Ended<br>September 30, 2021 |                               |
|---|---|-------------------------------|---|-------------------------------|
|   | Average<br>Impaired Loans                       | Interest Income<br>Recognized | Average<br>Impaired Loans                       | Interest Income<br>Recognized |
| <i>(dollars in thousands)</i>                             |   |                               |   |                               |
| Impaired loans with a related allowance for loan losses:  |   |                               |   |                               |
| Production and intermediate-term                          | \$ 7  | \$ -                          | \$ 134  | \$ -                          |
| Total   | \$ 7  | \$ -                          | \$ 134  | \$ -                          |
| Impaired loans with no related allowance for loan losses: |   |                               |   |                               |
| Real estate mortgage                                      | \$ 8,700  | \$ 30                         | \$ 3,407  | \$ 35                         |
| Production and intermediate-term                          | 823   | 196                           | 373   | 4                             |
| Total   | \$ 9,523  | \$ 226                        | \$ 3,780  | \$ 39                         |
| Total impaired loans:                                     |   |                               |   |                               |
| Real estate mortgage                                      | \$ 8,700  | \$ 30                         | \$ 3,407  | \$ 35                         |
| Production and intermediate-term                          | 830   | 196                           | 507   | 4                             |
| Total   | \$ 9,530  | \$ 226                        | \$ 3,914  | \$ 39                         |

The following tables provide an age analysis of past due loans (including accrued interest).

|                                  | September 30, 2022     |                                |                   |  |                                    |   |
|----------------------------------|------------------------|--------------------------------|-------------------|--|------------------------------------|---|
|                                  | 30-89 Days<br>Past Due | 90 Days or<br>More Past<br>Due | Total Past<br>Due | Not Past Due or<br>less than 30<br>Days Past Due | Recorded<br>Investment in<br>Loans | Recorded<br>Investment<br>Accruing<br>Loans 90<br>Days or<br>More Past<br>Due |
| <i>(dollars in thousands)</i>    |                        |                                |                   |  |                                    |   |
| Real estate mortgage             | \$ 475                 | \$ 4,420                       | \$ 4,895          | \$ 914,481                                       | \$ 919,376                         | \$ 110  |
| Production and intermediate-term | 13                     | 110                            | 123               | 319,965  | 320,088                            | -   |
| Agribusiness                     | -                      | -                              | -                 | 55,381   | 55,381                             | -   |
| Rural infrastructure             | -                      | -                              | -                 | 19,530   | 19,530                             | -   |
| Rural residential real estate    | -                      | -                              | -                 | 1,515  | 1,515                              | -   |
| Agricultural export finance      | -                      | -                              | -                 | 2,008  | 2,008                              | -   |
| Total                            | \$ 488                 | \$ 4,530                       | \$ 5,018          | \$ 1,312,880                                     | \$ 1,317,898                       | \$ 110  |

|                                  | December 31, 2021      |                                |                   |  |                                    |   |
|----------------------------------|------------------------|--------------------------------|-------------------|--|------------------------------------|---|
|                                  | 30-89 Days<br>Past Due | 90 Days or<br>More Past<br>Due | Total Past<br>Due | Not Past Due or<br>less than 30<br>Days Past Due | Recorded<br>Investment in<br>Loans | Recorded<br>Investment<br>Accruing<br>Loans 90<br>Days or<br>More Past<br>Due |
| <i>(dollars in thousands)</i>    |                        |                                |                   |  |                                    |   |
| Real estate mortgage             | \$ 55                  | \$ 4,283                       | \$ 4,338          | \$ 896,591                                       | \$ 900,929                         | \$ -  |
| Production and intermediate-term | 6                      | 128                            | 134               | 336,651  | 336,785                            | -   |
| Agribusiness                     | -                      | -                              | -                 | 60,893   | 60,893                             | -   |
| Rural infrastructure             | -                      | -                              | -                 | 11,995   | 11,995                             | -   |
| Rural residential real estate    | -                      | -                              | -                 | 1,806  | 1,806                              | -   |
| Agricultural export finance      | -                      | -                              | -                 | 2,003  | 2,003                              | -   |
| Total                            | \$ 61                  | \$ 4,411                       | \$ 4,472          | \$ 1,309,939                                     | \$ 1,314,411                       | \$ -  |

A summary of changes in the allowance for loan losses is as follows:

| <i>(dollars in thousands)</i>    | Balance at June 30, 2022 | Charge-offs | Recoveries  | Provision for Loan Losses/ (Loan Loss Reversals) | Balance at September 30, 2022 |
|----------------------------------|--------------------------|-------------|-------------|--|-------------------------------|
| Real estate mortgage             | \$ 498                   | \$ -        | \$ -        | \$ (14)  | \$ 484                        |
| Production and intermediate-term | 957                      | -           | -           | (43)   | 914                           |
| Agribusiness                     | 135                      | -           | -           | 10   | 145                           |
| Rural infrastructure             | 21                       | -           | -           | 10   | 31                            |
| Rural residential real estate    | 2                        | -           | -           | (1)  | 1                             |
| Agricultural export finance      | 1                        | -           | -           | -  | 1                             |
| <b>Total</b>                     | <b>\$ 1,614</b>          | <b>\$ -</b> | <b>\$ -</b> | <b>\$ (38)</b>                                   | <b>\$ 1,576</b>               |

| <i>(dollars in thousands)</i>    | Balance at December 31, 2021 | Charge-offs | Recoveries   | Provision for Loan Losses/ (Loan Loss Reversals) | Balance at September 30, 2022 |
|----------------------------------|------------------------------|-------------|--------------|--|-------------------------------|
| Real estate mortgage             | \$ 514                       | \$ -        | \$ -         | \$ (30)  | \$ 484                        |
| Production and intermediate-term | 1,164                        | -           | 55           | (305)  | 914                           |
| Agribusiness                     | 116                          | -           | -            | 29   | 145                           |
| Rural infrastructure             | 21                           | -           | -            | 10   | 31                            |
| Rural residential real estate    | 6                            | -           | -            | (5)  | 1                             |
| Agricultural export finance      | 1                            | -           | -            | -  | 1                             |
| <b>Total</b>                     | <b>\$ 1,822</b>              | <b>\$ -</b> | <b>\$ 55</b> | <b>\$ (301)</b>                                  | <b>\$ 1,576</b>               |

| <i>(dollars in thousands)</i>    | Balance at June 30, 2021 | Charge-offs | Recoveries  | Provision for Loan Losses/ (Loan Loss Reversals) | Balance at September 30, 2021 |
|----------------------------------|--------------------------|-------------|-------------|--|-------------------------------|
| Real estate mortgage             | \$ 537                   | \$ -        | \$ -        | \$ 32  | \$ 569                        |
| Production and intermediate-term | 1,272                    | -           | 5           | (65)   | 1,212                         |
| Agribusiness                     | 32                       | -           | -           | 104  | 136                           |
| Rural infrastructure             | 15                       | -           | -           | 10   | 25                            |
| Rural residential real estate    | 1                        | -           | -           | 3  | 4                             |
| Agricultural export finance      | 1                        | -           | -           | -  | 1                             |
| <b>Total</b>                     | <b>\$ 1,858</b>          | <b>\$ -</b> | <b>\$ 5</b> | <b>\$ 84</b>                                     | <b>\$ 1,947</b>               |

| <i>(dollars in thousands)</i>    | Balance at December 31, 2020 | Charge-offs | Recoveries      | Provision for Loan Losses/ (Loan Loss Reversals) | Balance at September 30, 2021 |
|----------------------------------|------------------------------|-------------|-----------------|--|-------------------------------|
| Real estate mortgage             | \$ 423                       | \$ -        | \$ -            | \$ 146   | \$ 569                        |
| Production and intermediate-term | 1,359                        | -           | 2,928           | (3,075)  | 1,212                         |
| Agribusiness                     | 43                           | -           | -               | 93   | 136                           |
| Rural infrastructure             | 1                            | -           | -               | 24   | 25                            |
| Rural residential real estate    | 1                            | -           | -               | 3  | 4                             |
| Agricultural export finance      | -                            | -           | -               | 1  | 1                             |
| <b>Total</b>                     | <b>\$ 1,827</b>              | <b>\$ -</b> | <b>\$ 2,928</b> | <b>\$ (2,808)</b>                                | <b>\$ 1,947</b>               |

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on the Association's Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income, along with the provision for loan losses. A summary of changes in the reserve for unfunded commitments follows:

| <i>(dollars in thousands)</i>                                  | For the Three Months Ended<br>September 30 |               | For the Nine Months Ended<br>September 30 |               |
|--|--|---------------|---|---------------|
|  | 2022                                       | 2021          | 2022                                      | 2021          |
| Balance at beginning of period                                 | \$ 703                                     | \$ 589        | \$ 545                                    | \$ 518        |
| (Reversal of)/Provision for reserve<br>for unfunded commitment | (20)                                       | (1)           | 138                                       | 70            |
| <b>Total</b>   | <b>\$ 683</b>                              | <b>\$ 588</b> | <b>\$ 683</b>                             | <b>\$ 588</b> |

Additional information on the allowance for loan losses follows:

| <i>(dollars in thousands)</i>    | Allowance for Loan<br>Losses Ending Balance at<br>September 30, 2022 |  | Recorded Investments in Loans Outstanding<br>Ending Balance at<br>September 30, 2022 |  |
|----------------------------------|--|--|--|--|
|                                  | Individually evaluated<br>for impairment                             | Collectively evaluated<br>for impairment | Individually evaluated<br>for impairment   | Collectively evaluated<br>for impairment |
| Real estate mortgage             | \$ -   | \$ 484                                   | \$ 10,079  | \$ 909,297                               |
| Production and intermediate-term | 10   | 903                                      | 132  | 319,956                                  |
| Agribusiness                     | -  | 145                                      | -  | 55,381                                   |
| Rural infrastructure             | -  | 31                                       | -  | 19,530                                   |
| Mission-related                  | -  | 1  | -  | 1,515                                    |
| Agricultural export finance      | -  | 1  | -  | 2,008                                    |
| <b>Total</b>                     | <b>\$ 10</b>   | <b>\$ 1,566</b>                          | <b>\$ 10,211</b>   | <b>\$ 1,307,687</b>                      |

| <i>(dollars in thousands)</i>    | Allowance for Loan<br>Losses Ending Balance at<br>December 31, 2021 |  | Recorded Investments in Loans Outstanding<br>Ending Balance at<br>December 31, 2021 |  |
|----------------------------------|---|--|---|--|
|                                  | Individually evaluated<br>for impairment                            | Collectively evaluated<br>for impairment | Individually evaluated<br>for impairment  | Collectively evaluated<br>for impairment |
| Real estate mortgage             | \$ -  | \$ 514                                   | \$ 4,860  | \$ 896,069                               |
| Production and intermediate-term | -   | 1,164                                    | 198   | 336,587                                  |
| Agribusiness                     | -   | 116                                      | -   | 60,893                                   |
| Rural infrastructure             | -   | 21                                       | -   | 11,995                                   |
| Rural residential real estate    | -   | 6  | -   | 1,806                                    |
| Agricultural export finance      | -   | 1  | -   | 2,003                                    |
| <b>Total</b>                     | <b>\$ -</b>   | <b>\$ 1,822</b>                          | <b>\$ 5,058</b>   | <b>\$ 1,309,353</b>                      |

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The following table presents additional information regarding troubled debt restructurings that occurred during the periods.

|                               | For the Nine Months Ended                                  |   |  |   |
|-------------------------------|--|---|--|---|
|                               | September 30, 2022   |   | September 30, 2021   |   |
|                               | Pre-modification<br>Outstanding<br>Recorded<br>Investment* | Post-modification<br>Outstanding<br>Recorded<br>Investment* | Pre-modification<br>Outstanding<br>Recorded<br>Investment* | Post-modification<br>Outstanding<br>Recorded<br>Investment* |
| Troubled debt restructurings: |  |   |  |   |
| Real estate mortgage          | \$ 4,086   | \$ 4,086  | \$ -   | \$ -  |
| Total                         | \$ 4,086   | \$ 4,086  | \$ -   | \$ -  |

\* Pre-modification represents the recorded investment in the loan receivable just prior to restructuring and post-modification represents the recorded investment in the loan receivable immediately following the restructuring. The recorded investment is the face amount of the loan receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

The Association had no TDRs within the previous 12 months and for which there were subsequent payment defaults during the first nine months of 2022 and 2021. There were no additional commitments to lend to borrowers whose loans have been modified in troubled debt restructuring at September 30, 2022 and December 31, 2021. There were no loans modified as part of a troubled debt restructurings during the three-month period ended September 30, 2022 or September 30, 2021. The TDR's that have occurred during 2022 are the result of payment deferrals on a customer whose loans are in nonaccrual status.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table.

| <i>(dollars in thousands)</i> | Loans modified as TDRs |                   | TDRs in Nonaccrual Status* |                   |
|-------------------------------|------------------------|-------------------|----------------------------|-------------------|
|                               | September 30, 2022     | December 31, 2021 | September 30, 2022         | December 31, 2021 |
| Real estate mortgage          | \$ 3,765               | \$ 157            | \$ 3,765                   | \$ -              |
| Total                         | \$ 3,765               | \$ 157            | \$ 3,765                   | \$ -              |

\* Represents the portion of loans modified as TDRs (first column) that are in nonaccrual status.

### NOTE 3 - CAPITAL

A summary of select capital ratios based on a three-month average and minimums set by the Farm Credit Administration follows.

|   | As of September<br>30, 2022 | As of December<br>31, 2021 | Regulatory<br>Minimums | Capital<br>Conservation<br>Buffer | Total |
|---|-----------------------------|----------------------------|------------------------|-----------------------------------|-------|
| Risk Adjusted:  |                             |                            |                        |                                   |       |
| Common equity tier 1 ratio                                      | 17.58%                      | 16.76%                     | 4.5%                   | 2.5%                              | 7.0%  |
| Tier 1 capital ratio  | 17.58%                      | 16.76%                     | 6.0%                   | 2.5%                              | 8.5%  |
| Total capital ratio   | 17.77%                      | 16.97%                     | 8.0%                   | 2.5%                              | 10.5% |
| Permanent capital ratio   | 17.60%                      | 16.79%                     | 7.0%                   | -                                 | 7.0%  |
| Non-risk-adjusted:  |                             |                            |                        |                                   |       |
| Tier 1 leverage ratio   | 16.34%                      | 15.51%                     | 4.0%                   | 1.0%                              | 5.0%  |
| Unallocated retained earnings<br>and equivalents leverage ratio | 16.16%                      | 16.99%                     | 1.5%                   | -                                 | 1.5%  |

If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

The following tables present the activity in the accumulated other comprehensive income/loss, net of tax by component:

| <i>(dollars in thousands)</i>   | For the Three Months Ended September 30 |          | For the Nine Months Ended September 30 |          |
|---|---|----------|--|----------|
|   | 2022                                    | 2021     | 2022                                   | 2021     |
| Pension and other benefit plans:                                      |   |          |  |          |
| Beginning balance   | \$ (165)                                | \$ (284) | \$ (181)                               | \$ (317) |
| Amounts reclassified from accumulated other comprehensive income/loss | 9                                       | 17       | 25                                     | 50       |
| Net current period other comprehensive income/(loss)                  | 9                                       | 17       | 25                                     | 50       |
| Ending balance  | \$ (156)                                | \$ (267) | \$ (156)                               | \$ (267) |

The following table represents reclassifications out of accumulated other comprehensive income/loss.

| <i>(dollars in thousands)</i>    | Amount Reclassified from Accumulated Other Comprehensive Income/Loss |       | Location of Gain/Loss Recognized in Statement of Income |
|----------------------------------|--|-------|---|
|                                  | For the Three Months Ended September 30                              |       |   |
|                                  | 2022   | 2021  |   |
| Pension and other benefit plans: |  |       |   |
| Net actuarial loss               | \$ 9   | \$ 17 | Salaries and employee benefits                          |
| Total reclassifications          | \$ 9   | \$ 17 |   |

| <i>(dollars in thousands)</i>    | Amount Reclassified from Accumulated Other Comprehensive Income/Loss |       | Location of Gain/Loss Recognized in Statement of Income |
|----------------------------------|--|-------|---|
|                                  | For the Nine Months Ended September 30                               |       |   |
|                                  | 2022   | 2021  |   |
| Pension and other benefit plans: |  |       |   |
| Net actuarial loss               | \$ 25  | \$ 50 | Salaries and employee benefits                          |
| Total reclassifications          | \$ 25  | \$ 50 |   |

#### NOTE 4 - FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 of the 2021 Annual Report to Shareholders for a more complete description.

Assets measured at fair value on a recurring basis are summarized below:

| <i>(dollars in thousands)</i>               | Fair Value Measurement Using |         |         | Total Fair Value |
|---|------------------------------|---------|---------|------------------|
|   | Level 1                      | Level 2 | Level 3 |                  |
| Assets held in nonqualified benefits trusts |                              |         |         |                  |
| September 30, 2022                          | \$ 1,027                     | \$ -    | \$ -    | \$ 1,027         |
| December 31, 2021                           | \$ 1,062                     | \$ -    | \$ -    | \$ 1,062         |

The Association had no liabilities measured at fair value on a recurring basis at September 30, 2022 or December 31, 2021. The Association had no assets or liabilities measured at fair value on a non-recurring basis at September 30, 2022 or December 31, 2021.

#### Valuation Techniques

As more fully discussed in Note 2 of the 2021 Annual Report to Shareholders, accounting guidance establishes a fair value hierarchy, which requires an Association to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities, subject to fair value measurement.

*Assets Held in Non-Qualified Benefits Trusts*

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

*Loans Evaluated for Impairment*

For impaired loans measured on a non-recurring basis, the fair value is based upon the underlying collateral since the loans are collateral dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases, it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

**NOTE 5 - SUBSEQUENT EVENTS**

The Association has evaluated subsequent events through November 4, 2022, which is the date the financial statements were issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to the Consolidated Financial Statements, except as noted below.

On November 1, 2022, Farm Credit of Enid, ACA merged its operations with and into Farm Credit of Western Oklahoma, ACA. The merger was accounted for under the acquisition method of accounting in accordance with the FASB Accounting Standards Codification 805 Business Combinations. As the accounting acquirer, Farm Credit of Western Oklahoma, ACA recognized the identifiable assets acquired and liabilities of Farm Credit of Enid, ACA assumed in the merger as of November 1, 2022, at their respective fair values. The fair values are based on various assumptions that management believes are reasonable utilizing information currently available.